



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
ELLIOTT COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ELLIOTT COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Elliott County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based on the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$92,123 from the prior fiscal year, resulting in a cash surplus of \$168,925 as of June 30, 2001. Revenues increased by \$593,548 from the prior year and disbursements increased by \$526,340.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$2,010,000. Future collections of \$3,610,685 are needed over the next twenty-two years to pay all bonded debt principal and interest.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles R. Pennington, Elliott County Judge/Executive

Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Elliott County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Elliott County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Elliott County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles R. Pennington, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 6, 2002, on our consideration of Elliott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Elliott County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 6, 2002

ELLIOTT COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Charles R. Pennington	County Judge/Executive
Charles Ray Pennington	Deputy County Judge/Executive
Curtis L. Adkins	Magistrate
Clyde E. Lewis	Magistrate
Diana Penix	Magistrate
Kermit Vanhooose	Magistrate
Gary Porter	Magistrate
Glen Skaggs	Magistrate
Billy Wilson	Magistrate

Other Elected Officials:

Johnny Lewis	County Attorney
Jamie Stephens	Jailer
Reeda Ison	County Clerk
Delmaine Dickerson	Circuit Court Clerk
Ronnie Stephens	Sheriff
Lovell Mayse	Property Valuation Administrator
Mark Lewis	Coroner

Appointed Personnel:

Claudette Sturgill	County Treasurer
Fonda Weddington	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

ELLIOTT COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$	62,315
------	----	--------

Road and Bridge Fund:

Cash		30,342
------	--	--------

Jail Fund:

Cash		40
------	--	----

Local Government Economic Assistance Fund:

Cash		73,908
------	--	--------

Appalachian Regional Commission Fund:

Cash	132	
		\$ 166,737

Special Revenue Fund Type

Fire Protection Fund:

Cash	\$	17
------	----	----

911 Fund:

Cash	2,171	
		2,188

Debt Service Fund Type

Public Properties Corporation Fund:

Amount to be Provided in Future Years for Bond Payment- Administrative Office of the Courts (Note 4)		2,010,000

Total Assets and Other Resources		\$ 2,178,925

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

Debt Service Fund Type

Public Properties Corporation Fund:

Bonds Not Matured (Note 4) \$ 2,010,000

Fund Balances

Reserved:

Special Revenue Fund Type

911 Fund	\$ 2,171	
Fire Protection Fund	<u>17</u>	2,188

Unreserved:

General Fund Type

General Fund	62,315	
Road and Bridge Fund	30,342	
Jail Fund	40	
Local Government Economic Assistance Fund	73,908	
Appalachian Regional Fund	<u>132</u>	<u>166,737</u>
Total Liabilities and Fund Balances		<u>\$ 2,178,925</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

ELLIOTT COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,084,422	\$ 769,369	\$ 753,885	\$ 29,762
Other Financing Sources:				
Transfers In	259,004	102,806	100,000	56,198
Total Cash Receipts	<u>\$ 2,343,426</u>	<u>\$ 872,175</u>	<u>\$ 853,885</u>	<u>\$ 85,960</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,993,036	\$ 710,075	\$ 770,203	\$ 85,920
Other Financing Uses:				
Transfers Out	259,004	125,682	100,000	
Total Cash Disbursements	<u>\$ 2,252,040</u>	<u>\$ 835,757</u>	<u>\$ 870,203</u>	<u>\$ 85,920</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 91,386	\$ 36,418	\$ (16,318)	\$ 40
Cash Balance - July 1, 2000	<u>77,539</u>	<u>25,897</u>	<u>46,660</u>	
		*		
Cash Balance - June 30, 2001	<u>\$ 168,925</u>	<u>\$ 62,315</u>	<u>\$ 30,342</u>	<u>\$ 40</u>

*General Fund cash balance at July 1, 2000, does not agree to prior year ending balance due to \$737 of prior year voided checks.

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

General Fund Type			Special Revenue Fund Type		
Local Government Economic Assistance Fund	Appalachian Regional Commission Fund	Fire Protection Fund	911 Fund	Local Government Economic Development Fund	Community Development Block Grant Fund
\$ 133,868	\$ 1	\$ 2,476	\$ 34,255	\$ 252,806	\$ 108,000
\$ 133,868	\$ 1	\$ 2,476	\$ 34,255	\$ 252,806	\$ 108,000
\$ 29,446	\$	\$ 2,459	\$ 36,933	\$ 250,000	\$ 108,000
30,516				2,806	
\$ 59,962	\$ 0	\$ 2,459	\$ 36,933	\$ 252,806	\$ 108,000
\$ 73,906	\$ 1	\$ 17	\$ (2,678)	\$	\$
2	131		4,849		
\$ 73,908	\$ 132	\$ 17	\$ 2,171	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Elliott County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation Fund as part of the reporting entity.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore management must include the Corporation as a component unit, and the Corporation's financial activity has been blended with that of the Fiscal Court.

Additional - Elliott County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Elliott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Elliott County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Elliott County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and the Appalachian Regional Commission Fund.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Fire Protection Fund, the 911 Fund, the Local Government Economic Development Fund, and the Community Development Block Grant Fund are reported as Special Revenue Fund Types. The Solid Waste Fund was reported as a Special Revenue Fund Type in our prior year audit. This Fund has been closed and is no longer included in the financial statements.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. The Public Properties Corporation Fund debt service will be provided through annual transfers from the General Fund Type in the amount of the debt service requirements for each year. Receipts will include annual lease payments from the Administrative Office of the Courts (AOC) for the Elliott County Courthouse. Debt service and annual lease receipts will begin during fiscal year ended June 30, 2002.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Elliott County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Elliott County Fiscal Court: the Elliott County Housing Authority and the Library.

G. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is therefore an organization jointly governed by the Kentucky counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Long-Term Debt

On April 26, 2000, the Elliott County Public Properties Corporation, a component unit of the Elliott County Fiscal Court, issued \$2,010,000 in First Mortgage Revenue Bonds for the Courthouse Renovation. Semiannual principal and interest payments are required in September and March of each year beginning September 2001.

The Elliott County Public Properties Corporation is acting as an agent for the Administrative Office of the Courts in order to manage and maintain the Elliott County Courthouse. The Elliott County Public Properties Corporation expects rentals for use of the Elliott County Courthouse to be in the full amount of the principal and interest requirements of the bonds through March 2003. Beginning March 2003, Elliott County will be responsible for a portion of the annual principal and interest requirements of the bonds. The Elliott County Public Properties Corporation expects annual rentals to cover a portion of the annual principal and interest requirements of the bonds and transfers from the Elliott County General Fund Type to cover the balance.

Under the terms of a lease, The Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Elliott County Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds through March 2003. Thereafter, the Elliott County Public Properties Corporation will be in reliance upon the use allowance payment and transfers from the General Fund Type in order to meet debt service on the bonds.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long-Term Debt (Continued)

The Administrative Office of the Courts with the execution of the lease has expressed its intention to continue to pay the full allowance payment until March 2003. Thereafter, the Administrative office of the Courts has expressed its intention to continue to pay a partial allowance payment. However, the lease does not legally obligate the Administrative Office of the Courts to do so.

As of June 30, 2001, the principal balance on these bonds was \$2,010,000. Debt service requirements for fiscal years ending June 30, 2002 and thereafter are as follows:

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2002	\$ 109,835	\$ 50,000
June 30, 2003	107,435	50,000
June 30, 2004	105,035	50,000
June 30, 2005	102,535	55,000
June 30, 2006	99,785	55,000
Remaining	<u>1,076,060</u>	<u>1,750,000</u>
Totals	<u>\$ 1,600,685</u>	<u>\$ 2,010,000</u>

Note 5. Insurance

For the fiscal year ended June 30, 2001, Elliott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

ELLIOTT COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 851,392	\$ 770,106	\$ (81,286)
Road and Bridge Fund	761,329	753,885	(7,444)
Jail Fund	30,815	29,762	(1,053)
Local Government Economic Assistance Fund	377,425	133,868	(243,557)
Appalachian Regional Commission Fund	25	1	(24)
<u>Special Revenue Fund Type</u>			
Fire Protection Fund	3,125	2,476	(649)
911 Fund	36,150	34,255	(1,895)
Local Government and Economic Development Fund	252,806	252,806	
Community Development Block Grant Fund	<u>500,000</u>	<u>108,000</u>	<u>(392,000)</u>
Totals	<u>\$ 2,813,067</u>	<u>\$ 2,085,159</u>	<u>\$ (727,908)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 2,813,067
Add: Budgeted Prior Year Surplus	<u>76,802</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 2,889,869</u>

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SCHEDULE OF OPERATING REVENUE

ELLIOTT COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type
REVENUE:			
Taxes	\$ 299,537	\$ 262,888	\$ 36,649
In Lieu Tax Payments	5,852	5,852	
Excess Fees	1,382	1,382	
Licenses and Permits	1,305	1,305	
Intergovernmental Revenues	1,564,518	1,206,518	358,000
Charges for Services	187,235	187,235	
Miscellaneous Revenues	13,941	13,941	
Interest Earned	10,652	7,764	2,888
Total Operating Revenue	<u>\$ 2,084,422</u>	<u>\$ 1,686,885</u>	<u>\$ 397,537</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

ELLIOTT COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

GENERAL FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 510,183	\$ 345,308	\$ 164,875
Protection to Persons and Property	474,834	423,790	51,044
General Health and Sanitation	24,200	23,467	733
Recreation and Culture	123,543	47,222	76,321
Roads	543,045	510,986	32,059
Road Facilities	158,000	10,000	148,000
Debt Service	8,704	88,705	(80,001)
Administration	250,430	146,166	104,264
 TOTAL BUDGET - GENERAL FUND TYPE	 \$ 2,092,939	 \$ 1,595,644	 \$ 497,295
SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 250,000	\$ 250,000	\$
Protection to Persons and Property	35,643	35,152	491
General Health and Sanitation	500,000	108,000	392,000
Administration	11,287	4,240	7,047
 TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	 \$ 796,930	 \$ 397,392	 \$ 399,538

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles R. Pennington, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Elliott County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated June 6, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Elliott County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elliott County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 6, 2002

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

ELLIOTT COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

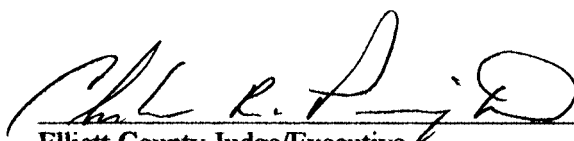
CERTIFICATION OF COMPLIANCE

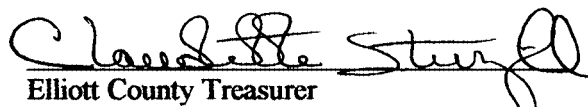
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

ELLIOTT COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Elliott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Elliott County Judge/Executive


Elliott County Treasurer